

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

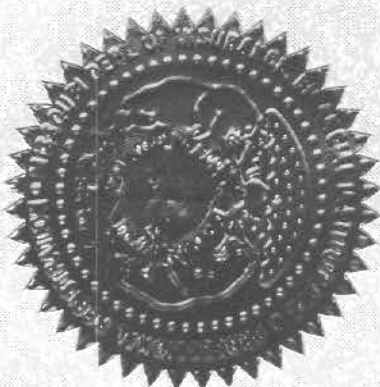
RE: Examination Report of Shelter Life Insurance Company as of December 31, 2007

ORDER

After full consideration and review of the report of the financial examination of Shelter Life Insurance Company for the period ended December 31, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Shelter Life Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this May 7, 2009.



John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
SHELTER LIFE INSURANCE COMPANY

AS OF
DECEMBER 31, 2007

FILED

MAY 17 2009

DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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Columbia, Missouri
April 10, 2009

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee

Honorable Merle D. Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable John M. Huff, Acting Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Shelter Life Insurance Company

hereinafter referred to as such, as Shelter Life, or as the Company. Its administrative office is located at 1817 West Broadway, Columbia, Missouri 65218, telephone number (573) 445-8441. This examination began on August 18, 2008, fieldwork was completed on March 5, 2009 and the examination report was concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Shelter Life Insurance Company was made as of December 31, 2004, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covered the period from January 1, 2005, through December 31, 2007, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination was performed concurrently with the examinations of the Company's parent, Shelter Mutual Insurance Company (Shelter Mutual) and two affiliates, Shelter General Insurance Company (Shelter General) and Shelter Reinsurance Company (Shelter Re).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, Ernst & Young, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2007, through December 31, 2007. Information relied upon included paid losses and schedule P analysis and reconciliation, attorney letters, review and documentation of review of fraud, tests of controls and system walk-throughs, narrative descriptions of processes and controls, etc.

Comments - Previous Examination

The prior examination of Shelter Life as of December 31, 2004 did not contain any comments and/or recommendations requiring action or response from its management.

HISTORY

General

Shelter Life was incorporated on November 13, 1958 and was originally named M.F.A. Life Insurance Company. It was issued a Certificate of Authority and commenced business on March 2, 1959. The Company's name was changed to Shelter Life Insurance Company on July 1, 1981. The Company operates as a stock life and health insurer under the insurance laws of Chapter 376 RSMo (Life and Accident Insurance).

Capital Stock

Shelter Life is owned 100% by Shelter Mutual. The Company is authorized to issue 2,200,000 shares of common stock with a par value of \$10 per share. As of December 31, 2007, 1,200,000 shares were issued and outstanding for a total capital stock balance of \$12,000,000.

Dividends

Shelter Life paid ordinary cash dividends of \$5,000,000 in 2007, \$2,000,000 in 2006 and \$3,000,000 in 2005, to its sole shareholder, Shelter Mutual.

Management

The management of the Company is vested in a Board of Directors that are appointed by the sole shareholder, Shelter Mutual. The Company's Articles of Incorporation and Bylaws specify that the number of directors shall be nine. The Board of Directors appointed and serving, as of December 31, 2007, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
John D. Duello Rocheport, MO	Chairman of the Board and Retired Executive Shelter Insurance Companies
John D. Moore Columbia, MO	President and CEO Shelter Insurance Companies
Raymond E. Jones Columbia, MO	Retired Executive Shelter Insurance Companies
Gerald T. Brouder Columbia, MO	President Columbia College
Ann K. Covington Columbia, MO	Vice Chairman Shelter Insurance Companies Attorney / Partner Bryan Cave, LLP
Andres Jimenez* Madrid, Spain	Vice President and Chief Executive Officer Mapfre Re Compania de Reaseguros, S.A.

Don A. McCubbin Sturgeon, MO	Executive Vice President Shelter Insurance Companies
Barry L. McKuin Morrilton, AR	Retired President Morrilton Area Chamber of Commerce
Phillip K. Marblestone University Park, FL	Retired Partner PriceWaterhouseCoopers LLP

* Effective August 1, 2008, Mr. Jimenez retired and was replaced as a Board member by Randall C. Ferguson.

Committees

The Bylaws require an Executive and Compensation Committee, Audit Committee, and an Investment Committee of the Board of Directors. The Bylaws also allow for other committees to be appointed by the Board of Directors as needed. As of December 31, 2007, the members of each committee were as follows:

Executive and Compensation Committee

Ann K. Covington, Chairman
John D. Duello
Barry L. McKuin
John D. Moore
Gerald T. Brouder

Investment Committee

John D. Duello, Chairman
Raymond E. Jones
Thomas N. Fischer#
Ann K. Covington
John D. Moore
Don A. McCubbin
Gerald T. Brouder

Audit Committee

Barry L. McKuin, Chairman
Ann K. Covington
Phillip K. Marblestone

Resigned effective March 1, 2008, and was replaced by Jerry L. French

Officers

The officers of the Company shall be a Chairman of the Board, Vice Chairman of the Board, a President and Chief Executive Officer, an Executive Vice President, Vice Presidents, Secretary and a Treasurer, all of whom shall be elected by the Board of Directors. The officers elected by the Board of Directors and serving as of December 31, 2007, were as follows:

John. D. Duello	Chairman
Ann K. Covington	Vice Chairman
John D. Moore	President and Chief Executive Officer
Randa Rawlins	Secretary and General Counsel
Don A. McCubbin	Executive Vice President

Gary D. Myers	Executive Vice President
Ricky L. Means	Executive Vice President
Jerry L. French	Executive Vice President, Treasurer, and Assistant Secretary
William C. Keithley*	Vice President
Robert W. Omdal	Assistant Secretary
Joe L. Moseley	Vice President – Public Affairs
Gary L. Ford	Vice President – Planning and Research
C. Tyler Bailey	Vice President – Marketing
Patricia A. McDonald	Vice President and General Manager
Terry L. Dykes	Vice President – General Services
Thomas N. Fischer#	Vice President – Investments
L. Gerald Brooks@	Assistant Treasurer

Thomas N. Fischer resigned as Vice President of Investments effective March 31, 2008. Investment duties will be performed by Jerry L. French, Executive Vice President, Treasurer, and Assistant Secretary.

* William C. Keithley was appointed Executive Vice President as of January 1, 2008, and was replaced by Yvette M. Gonzales as Vice President of Information Services effective as of the same date.

@ L. Gerald Brooks retired on November 21, 2008 and was replaced by Christina M. Workman as Assistant Treasurer. Ms. Workman was also appointed Vice President of Accounting as of January 1, 2008.

Conflict of Interest

The Company has a policy that requires all officers, directors, and key employees to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. There were no amendments or changes to the Articles of Incorporation during the period under examination.

The Bylaws were amended and restated effective February 24, 2005, to specify the indemnification guidelines for employees, officers, and directors that are subject to litigation proceedings. The Bylaws were further amended effective October 10, 2005, to add the Investment Committee as a required committee of the Board of Directors, revise the duties and requirements of elected officers, and other minor changes. The Bylaws were also amended effective December 18, 2006, to change the title of Chairman of the Board and CEO to simply Chairman of the Board, and to change the title of President and Chief Operating Officer to President and Chief Executive Officer.

The minutes of the Board of Directors' meetings, committee meetings, and policyholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions, mergers or major corporate events during the examination period.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by its parent, Shelter Mutual, on behalf of itself, and its insurance subsidiaries, including Shelter Life for each year of the examination period.

Shelter Life is ultimately owned by the policyholders of Shelter Mutual. Shelter Mutual, a property and casualty mutual insurer, does not have any stockholders or controlling entity due to its formation and organization as a mutual entity.

As of December 31, 2007, Shelter Mutual, in addition to the ownership of Shelter Life, wholly or partially owned the following entities:

- Shelter General Insurance Company (Shelter General), a State of Missouri property and casualty insurer specializing in automobile insurance coverage.
- Shelter Reinsurance Company (Shelter Re), a State of Missouri reinsurer that specializes in providing property and casualty reinsurance and earthquake reinsurance coverage on an excess of loss basis.
- Shelter Financial Corporation (SFC), a holding company for Shelter Financial Bank.
- Shelter Financial Bank (SFB), a savings and loan company that sells certificates of deposits and provides auto loans and mortgage loans. It does not have any demand accounts (checking or savings). Its customers are mainly policyholders of Shelter Mutual and Shelter General, but customers may also come from the general public.
- Shelter Financial Services, Inc. (SFS), a holding company for Shelter Benefits Management, Inc.

- Shelter Benefits Management, Inc. (Shelter Benefits), a benefit management company that manages various agent and employee services for Shelter Mutual employees. Services provided include human resource functions, payroll services, and benefits administration for the employees, agents, and retirees of Shelter Mutual.
- Shelter Enterprises, LLC (Shelter Enterprises) – Leases property and equipment to affiliates, including Shelter Mutual, and other non-affiliated entities.
- Daniel Boone Agency, LLC (DBA, LLC). – An insurance broker that places risks from leads generated by agents of Shelter Mutual and its insurance subsidiaries.

As of December 31, 2007, Shelter Life had a partial ownership interest in Shelter Financial Services, Inc. (SFS), Shelter Enterprises, LLC (Shelter Enterprises) and Daniel Boone Agency, LLC (DBA, LLC).

Organizational Chart

The following table depicts the holding company system of Shelter Life and its parent and affiliates as of December 31, 2007:

<u>Company</u>	<u>Parent or Controlling Entity</u>	<u>Ownership</u>
Shelter Mutual Insurance Company	Policyholders	100%
Shelter General Insurance Company	Shelter Mutual Insurance Company	100%

Shelter Enterprises, LLC	Shelter Mutual Insurance Company	13%
	Shelter General Insurance Company	39%
	Shelter Life Company	39%
	Shelter Reinsurance Company	9%
Shelter Life Insurance Company	Shelter Mutual Insurance Company	100%
Shelter Reinsurance Company	Shelter Mutual Insurance Company	100%
Shelter Financial Corporation	Shelter Mutual Insurance Company	100%
Shelter Financial Bank	Shelter Financial Corporation	100%
Shelter Financial Services, Inc.	Shelter Mutual Insurance Company	79%
	Shelter General Insurance Company	11%
	Shelter Life Insurance Company	10%
Shelter Benefits Management, Inc.	Shelter Financial Services, Inc.	100%
Daniel Boone Agency, L.L.C.	Shelter Mutual	40%
	Shelter General	40%
	Shelter Life	20%
Haulers Insurance Company*	Shelter Mutual	100%

*Haulers Insurance Company (Haulers Insurance) was acquired on June 30, 2008, subsequent to the examination date.

Intercompany Transactions

The Company is a party to the intercompany agreements outlined below.

1. **Type:** Agreement for Management Services and Facilities (9 separate agreements)
- Parties:** Shelter General, Shelter Re, SFC, SFS, Daniel Boone Agency, LLC, Daniel Boone Agency, Inc. Daniel Boone Underwriters, Inc., Shelter Enterprises, LLC, (collectively referred to as the "Subsidiaries").
- Effective:** January 1, 1997 for Daniel Boone Agency, LLC
January 1, 1997 for Shelter Life, Shelter Re, and SFS
April 10, 1998 for SFC
October 1, 2003 for DBA, Inc., DBU, Inc., and Shelter Enterprises and December 5, 2005, for Shelter General
- Terms:** All 9 agreements contain the following nearly identical terms. Shelter Mutual agrees to provide the employees to operate all aspects of the Subsidiaries. Services to be provided include recordkeeping, processing, planning, budgeting, receipt and disbursement activities, and all work incidental to the operation of the Subsidiaries' business. Shelter Mutual agrees to provide office space, utilities, computer systems, office equipment, and supplies. In exchange for the services and facilities provided by Shelter Mutual, the Subsidiaries will make monthly payments to Shelter Mutual. Payments will be calculated in accordance with the Joint Expense Allocation Agreement between Shelter Mutual and the

Subsidiaries. These agreements were amended effective September 22, 2006, to prohibit payments no later than 89 days after the billing date.

The agreement with Shelter General also contains a processing clause wherein Shelter Mutual agrees to process and service outstanding claims drafts of Shelter General.

2. Type: Joint Expense Allocation Agreement

Parties: Shelter Mutual, Shelter General, Shelter Re, SFS, Daniel Boone Agency, LLC, Shelter Enterprises, LLC, Shelter Benefits

Effective: May 19, 1999 (original Agreement)
December 1, 2004 (amended and restated)
September 22, 2006 Amended

Terms: Each party agrees to pay its direct expenses in instances when each entity's actual usage can be determined. The parties agree to allocate any joint expenses for instances in which the identification and segregation of each entity's actual share is not practically feasible. The allocation methodologies for each category of joint expenses are as follows:

- (1) Personnel – estimated or actual time
- (2) Real Estate – square footage and employee count
- (3) Investment – portfolio value
- (4) Claims Adjustment (applicable to Shelter Mutual and Shelter General only) – incurred losses
- (5) Reinsurance (applicable to Shelter Mutual and Shelter General only) – actual premiums and claims of each entity
- (6) Other Expenses – assets, employee count, or written premium.

This agreement was amended effective September 22, 2006, to strengthen the original settlement period of 30 days by prohibiting payment of later than 89 days after billing date.

3. Type: Tax Allocation Agreement

Parties: Shelter Mutual, Shelter General, Shelter Re, SFS, SFC, Shelter Benefits, SFB and Haulers Insurance

Effective: Effective May 19, 1999; amended September 23, 2008, to include Haulers Insurance Company. Agreement is applicable to 1999 and subsequent tax years.

Terms: Shelter Mutual will file a consolidated federal income tax return on behalf of itself and its subsidiaries. The tax liability for each company will be the amount that would have been determined on a separate filing basis. The subsidiaries will pay their share of tax payments to Shelter Mutual within 10 days following any tax payments made by Shelter Mutual. Shelter Mutual will refund any amount due to the subsidiaries within 10 days after filing the consolidated return.

4. Type: Credit Insurance Servicing Agreement

Parties: Shelter Financial Bank

Effective: July 6, 2005; Amendment 1 effective January 1, 2007

Terms: Shelter Bank will service the policies assigned to it for the benefit of Shelter Life. The Bank will not accept a sales commission; but will be compensated by receiving \$1.69 for each credit insurance policy in force at the beginning of each month – fee paid by the 15th day of the month following the end of the billing month. Administrative services will include: completing applications for agents; collecting/remitting premiums; assisting with claims; tracking premium balances; calculating payoffs; filing cancellations; and providing tracking data. Agreement shall automatically renew annually until terminated at any time by 30 days' prior written notice.

5. Type: Commission Agreement

Parties: Daniel Boone Agency, LLC

Effective: September 9, 2006

Terms: The Daniel Boone Agency, LLC agrees to submit appropriate life insurance or annuity applications to Shelter Life for life insurance or annuity sales to affiliated companies within the Shelter Insurance Group. Shelter Life agrees to pay DBA, LLC, a commission of one percent (1%) of the single premium life insurance or annuity contracts sold by Shelter Life to affiliated companies within the Shelter Insurance Group. Payments of commission hereunder will be made by Shelter Life to DBA, LLC, in less than 90 days from the date of issuance of each life insurance policy or annuity contract.

6. Type: Promissory Note

Parties: Shelter Enterprises

Effective: May 1, 2006

Terms: Shelter Enterprises promises to pay a principal sum of \$8,000,000 to Shelter Life with an interest rate of 6.8%. Annual interest payments began on June 1, 2006 to continue monthly. On May 1, 2007 the outstanding balance of all advances and accrued interest shall be totaled and the sum amortized for a period of 240 months at an interest rate of 6.8%. During the amortization period Shelter Enterprise shall pay monthly installments of principal and interest. The Note was amended May 1, to state that the outstanding balance of all advances and accrued interest as of May 1, 2007 equals \$6,500,000.

7. Type: Promissory Note

Parties: Shelter Mutual and Shelter Benefits

Effective: May 13, 1999

Terms: Shelter Life promises to pay a principal sum of \$100,223,532 to Shelter Mutual with an interest rate of 6.2%. Annual interest payments began on May 1, 2000

and continue on May 1 of each succeeding year. Annual principal payments of \$20,000,000 plus interest were scheduled to begin on May 1, 2005 and continue on May 1 of each succeeding year. The final principal payment of \$20,223,532 plus interest will be paid on May 1, 2009. This Note was immediately assigned by Shelter Mutual to Shelter Benefits upon execution on May 13, 1999.

- 8. Type:** Commission and Credit Insurance Agreement
- Parties:** Shelter Financial Bank
- Effective:** April 1, 2004 and terminated on July 1, 2005
- Terms:** Shelter Financial Bank sold credit insurance for the Company on loans issued to customers of Shelter Bank. The Company paid Shelter Financial Bank a 5% commission on the net premiums for policies issued. Shelter Bank was eligible to receive a profit commission each year on credit policies it sold. The profit commission was equal to half of the net income on the credit policies in excess of a 5% net gain. The profit commission was limited to a maximum of 10% of net written premium for the credit policies.

The following table summarizes the payments and receipts that occurred during the exam period, between Shelter Life and its affiliates:

Affiliate	Agreement	Net Paid / (Received)		
		2007	2006	2005
Shelter Mutual	Management Services	180,097	161,207	179,748
Shelter Mutual	Joint Expense Allocation	10,986,371	8,980,509	8,279,052
Shelter Benefits	Transfer and Assumption	214,534	158,751	394,656
Shelter Mutual	Tax Allocation	7,189,960	5,281,512	7,162,797
SFB	Credit Insurance Agreement	42,559	51,677	67,062
DBA, LLC	Commission Agreement	4,515	10,620	6,740
Shelter Mutual	Cash Dividend	5,000,000	2,000,000	3,000,000
Daniel Boone Agency	Cash Dividend	(800,000)	(400,000)	(200,000)
Shelter Benefits	Promissory Note	22,907,192	24,147,192	25,387,192
Shelter Enterprises	Promissory Note	(1,299,751)	(5,871,069)	(5,387,192)
TOTALS		<u>\$44,425,477</u>	<u>\$34,520,399</u>	<u>\$38,890,055</u>

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2007, Shelter Life is a named-insured on a standard financial institution bond providing fidelity coverage, purchased through its parent, Shelter Mutual. The financial institution bond has a liability limit of \$2,500,000 and a deductible of \$100,000. This level of coverage meets the suggested minimum amount of fidelity insurance coverage as determined in accordance with NAIC guidelines

Shelter Life is also a named-insured on the following insurance policies: General Liability, Excess Umbrella, Automobile, Property and Equipment (including Boiler and Machinery coverage), Fiduciary and Excess Fiduciary, Workers Compensation and Earth Movement Policy coverages.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Shelter Life does not have any direct employees or agents. Employees and agents of the parent, Shelter Mutual, perform all functions necessary for the operation of Shelter Life, pursuant to the Agreement for Management Services and Facilities. Shelter Life reimburses Shelter Mutual for an allocated share of the payroll and benefits costs of the employees that provide services, pursuant to a Joint Expense Allocation Agreement. Both agreements are described further in the Intercompany Transactions section of this report. As of December 31, 2007, there were 72 Shelter Mutual employees that work solely on the business functions of Shelter Life.

A variety of standard benefits are provided to the Shelter Mutual employees and agents. These benefits include, but are not limited to, the following: medical insurance, dental insurance, life insurance, personal accident insurance, disability insurance, sick leave, and tuition reimbursement. Employees are also provided with a defined benefit pension plan and a 401(k) savings and profit sharing plan. Certain highly compensated employees are provided with a Supplemental Employee Retirement Plan.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2007, as reflected below, were sufficient to meet the capital deposit requirement for the State of Missouri in accordance with Section 376.290 RSMo (Trust Deposits). The funds on deposit as of December 31, 2007, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Bonds	\$2,500,000	\$2,783,453	\$2,450,605

Deposits with Other States

The Company also has funds on deposit with other various other states and jurisdictions in which it is licensed. Those funds on deposit as of December 31, 2007, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Arkansas	U.S Treasury Bonds	\$500,000	\$517,265	\$493,283
Nevada	Fed Home Loan Bank	\$250,000	\$293,032	\$287,152
TOTALS		<u>\$750,000</u>	<u>\$810,297</u>	<u>\$780,435</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Shelter Life Insurance Company (Shelter Life) is licensed as a life, accident and health insurer by the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) under Chapter 376 RSMo (Life and Accident Insurance). The Company is licensed and writes business in Missouri and 13 other Midwestern states, as follows:

Arkansas	Indiana	Kentucky	Nebraska
Colorado	Iowa	Louisiana	Oklahoma
Illinois	Kansas	Mississippi	Tennessee
Nevada			

The states with the largest percentage of 2007 direct written premiums and annuity considerations were Missouri (34%) and Arkansas (17%). The major lines of business for Shelter Life, based upon 2007 net written premiums, are as follows:

<u>Line of Business</u>	<u>Percentage of Total Net Written Premiums</u>
Ordinary Life	75.4%
Group Accident and Health	12.0%
Ordinary Individual Annuities	9.3%
All Other	<u>3.3 %</u>
Total	<u>100.0%</u>

The Company offers ordinary life products which include whole life, term life, and universal life policies. Single premium deferred, flexible premium deferred, and individual retirement account (IRA) options annuity products are also offered to policyholders. The group accident and health business is mostly for employees, agents, and retirees of the Shelter Companies with a few non-affiliated groups in run-off.

The Company's products are marketed by approximately 1,311 captive agents, which also produce business for the parent, Shelter Mutual, and an affiliate, Shelter General. The agents cross-sell products for the Shelter Bank subsidiary. Shelter Mutual also has a marketing staff

that uses various methods of advertising and direct mailings to promote the products of Shelter Life and affiliates.

Policy Forms & Underwriting

Advertising & Sales Materials

Treatment of Policyholders

The DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. However, no market conduct examinations for the Company were performed by Missouri or any other states during the examination period.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Direct Business	\$123,325,322	\$117,121,023	\$108,272,488
Reinsurance Assumed	0	0	0
Reinsurance Ceded:			
Affiliates	0	0	0
Non-affiliates	<u>(9,699,365)</u>	<u>(8,802,498)</u>	<u>(7,144,455)</u>
Net Premiums Written	<u>\$113,625,957</u>	<u>\$108,318,525</u>	<u>\$101,128,033</u>

Assumed

The Company does not assume any business.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Shelter Life's ceded reinsurance activity is relatively small. Total life reserves ceded, as of December 31, 2007, were \$12.7 million. The maximum retention for any one life policy is \$650,000 per insured. The Company does not have any significant ceded risks for active

Accident and Health (A&H) business, which consists of a group policy for the employees, agents, and retirees of the Shelter Insurance Companies. Total A&H reserves ceded, as of December 31, 2007, were \$1.0 million.

The Company has automatic coinsurance with multiple reinsurers on its term life products for the first \$1.3 million with facultative coverage for policies over this limit. Facultative coverage is placed for other life products, with \$650,000 retention, as well.

Shelter Life maintains a two-layer catastrophe program covering \$30 million excess of \$7 million; and \$25 million excess of \$37 million, placed with multiple reinsurers.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements were audited by the CPA firm, Ernst & Young, LLP, of Kansas City, Missouri, for all the years under examination.

Appointed Actuary

The actuarial opinion regarding the Company's policy and claim reserves was issued by Robert Wayne Omdal, FSA, MAAA for all years under examination. Mr. Omdal is employed by Shelter Mutual Insurance Company.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Shelter Life for the period ending December 31, 2007. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Corporation and noted in the workpapers for each individual Annual Statement item.

Assets

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$758,623,838	\$0	\$758,623,838
Common Stocks	75,618,368		75,618,368
Mortgage Loans on Real Estate	6,408,978		6,408,978
Cash and Short-Term Investments	14,076,998		14,076,998
Contract Loans	26,805,210	217,735	26,587,475
Other Invested Assets	1,998,461		1,998,461
Investment Income Due and Accrued	8,484,223		8,484,223
Uncollected Premiums and Agents' Balances in the Course of Collection	450,375		450,375
Deferred Premiums, Agents' Balances Booked But Deferred and Not Yet Due	17,808,376		17,808,376
Accrued Retrospective Premiums	260,526		260,526
Amounts Recoverable from Reinsurers	664,791		664,791
Other Amounts Receivable Under Reinsurance	243,701		243,701
Net Deferred Tax Asset	2,122,272		2,122,272
Guaranty Funds Receivable on Deposit	2,022,675		2,022,675
EDP Equipment and Software	553		553
Furniture and Equipment	7,904	7,904	0
Receivables from Parent, Sub., and Affiliates	47,528		47,528
Health Care and Other Amounts Receivable	3,629,		3,629
Aggregate Write-ins for Assets:			
State Income Tax Receivable	4,032		4,032
Receivable for Escheated Checks	<u>13</u>	<u>0</u>	<u>13</u>
TOTAL ASSETS	<u>\$915,652,451</u>	<u>\$225,639</u>	<u>\$915,426,812</u>

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Contracts	\$ 589,525,248
Aggregate Reserve for Accident and Health Contracts	15,080,221
Liability for Deposit-type Contracts	61,888,103
Contract Claims – Life	4,064,768
Contract Claims – Accident and Health	5,145,804
Policyholder's Dividends Due and Unpaid	29,790
Dividends Apportioned for Payment	5,451,623
Advance Premiums	210,580
Other Amounts Payable on Reinsurance	610,555
Interest Maintenance Reserve	1,739,257
Commissions to Agents Due or Accrued	467,361
General Expenses Due or Accrued	282,722
Taxes, Licenses and Fees	2,448,325
Federal Income Taxes	1,281,860
Unearned Interest Income	25,888
Remittances and Items not Allocated	132,954
Asset Valuation Reserve	11,341,215
Payable to Parent, Subsidiaries and Affiliates	43,901,151
TOTAL LIABILITIES	\$743,627,425
Common Capital Stock	12,000,000
Unassigned Funds (Surplus)	159,799,388
Capital and Surplus	<u>\$171,799,388</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$915,426,813</u>

Summary of Operations

Premiums and Annuity Considerations	\$115,846,860
Considerations for Supplementary Contracts with Life Contingencies	118,378
Net Investment Income	41,595,231
Amortization of Interest Maintenance Reserve	346,367
Commission and Expense Allowances on Reinsurance Ceded	2,773,001
Miscellaneous Income	<u>7,024</u>

TOTAL	<u>\$160,686,861</u>
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Death Benefits	27,222,093
Matured Endowments	300,110
Annuity Benefits	15,405,605
Disability Benefits and Benefits Under Accident & Health Policies	19,142,102
Surrender Benefits and Withdrawals for Life Contracts	17,260,186
Interest and Adjustments on Contract and Deposit-type Contract Funds	3,088,022
Payments on Supplementary Contracts with Life Contingencies	391,073
Increase in Aggregate Reserve for Life and Accident & Health Contracts	27,408,776
Commissions on Premiums and Annuity Considerations	8,555,302
General Insurance Expenses	17,620,698
Insurance Taxes, Licenses and Fees	2,627,272
Increase in Loading on Deferred and Uncollected Premiums	<u>(613,532)</u>

TOTAL	<u>\$138,407,707</u>
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NET GAIN FROM OPERATIONS	\$22,279,154
Dividends to Policyholders	5,821,630
Federal Income Taxes Incurred	(5,576,937)
Net Realized Capital Gains and (Losses)	<u>1,009,522</u>
NET INCOME	<u>\$11,890,109</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2006	\$162,076,786
Net Income or (Loss)	11,890,109
Change in Net Unrealized Capital Gains or (Losses)	4,093,859
Change in Net Deferred Income Taxes	845,759
Change in Non-admitted Assets	(107,989)
Change in Asset Valuation Reserve	(1,999,134)
Dividends to Stockholders	<u>(5,000,000)</u>
Net Change in Capital and Surplus	<u>\$9,722,604</u>
CAPITAL AND SURPLUS, DECEMBER 31, 2007	<u>\$171,799,390</u>

NOTES TO THE FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Shelter Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Larry Kleffner, CFE, Shawn Hernandez, CFE, Karen Baldree, CPA, CFE, Steven Koonse, CFE and Valerie Hastings, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Angela Campbell CFE, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment. Timothy F. Harris, FSA, MAAA of Milliman, Inc., also participated as a consulting actuary.

VERIFICATION

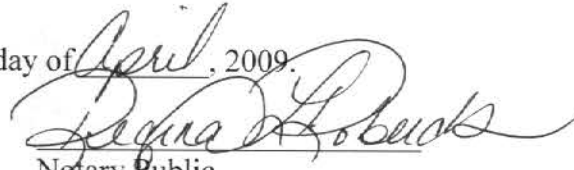
State of Missouri)
)
 County of)

I, Levi N. Nwasoria, CPA, MSA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Levi N. Nwasoria, CPA, MSA, CFE
 Examiner-In-Charge
 Missouri Department of Insurance, Financial
 Institutions and Professional Registration

Sworn to and subscribed before me this 7th day of April, 2009.

My commission expires: 06/26/10 
 Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in cursive script, reading "Vicki L. Denton", is written over a horizontal line.

Vicki L. Denton, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration